RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Jan. 24, 1990 **LETTER 1035**

Jan. 12 DJIA 2688.99; PTI 3303; A-D Ratio -8.04
Jan. 19 DJIA 2677.90; PTI 3296; A-D Ratio -8.54
Dow Yield: 3.7%; Dow P/E: 11.8; DowPow: 474
Dow Book Value: 1075; Dow 200-day MA: 2605
Percentage of undervalued blue-chips: 17%
PTI 89-day MA: 3275

THE PICTURE: On Friday, January 12, the Dow dropped 71.68 points, leaving in its wake a yawning gap of over 12 points in the senior Average. Breadth on the day was crushing -- 217 NYSE issues advanced while 1483 declined. Was this the trigger -- the start of something big? I honestly can't tell yet (and neither can anyone else). But here's something I want my subscribers to understand. If -- **IF** this is a bear market then it is almost a waste of time to scrutinize every wiggle and jiggle of the stock averages, because during a bear market the downward tide will ultimately take everything with it. Upward pops, hopeful formations, bullish non-confirmations -- all will be washed out to the downside as the bear expresses itself. But is this a bear market? Read on.

WHY, WHY, WHY? Talk about the markets going international -- the probable trigger for the drop in the US market was a sudden smash in Japanese bonds with the bellwether 10-year Japanese government bond pushing to a 6.465% yield, its highest yield since November 1985 (since then, Japanese yields have surged to 6.7%). With the Nikkei stock average providing an average yield of only 0.47%, the downward pressure is increasing on Japanese common stocks. Remember, a 0.47% yield means that for every $1,000 one puts into Japanese stocks, one receives an almost laughable annual return of $4.70. As the average age of Japan's citizens rises (and it is rising), these people need INCOME. And you don't get income from Japanese stocks!

What happens when Japanese bonds (and stocks) decline? For one thing, yields on Japanese bonds rise, and this makes Japanese bonds increasingly competitive with US Treasury bonds. The word is that the Japanese have cut way back on their purchases of US bonds. In the past, the Japanese have been massive buyers of T-bonds, therefore, a continued cut-back on the part of the Japanese would bode ill for T-bonds in particular and US bonds in general. Since bonds always compete with stocks, the bond market's problems immediately rubbed off on the US stock market.

This whole negative bond situation is probably the force behind the recently swooning Utility Average. Utilities, as you know, are highly sensitive to forthcoming changes in interest rates, and the drop in the Utility Average over the past few weeks has been dramatic.

On top of everything else, the problems of Mr. Gorbachev in the Baltics and elsewhere have unsettled the world's markets. The US must now deal with the incredible dilemma of not knowing whether to root for Mr. Gorbachev while hoping that Russia can keep its crumbling empire together -- or rooting for a general splintering and unraveling of the whole Soviet empire. Of course, if the Soviet empire actually does fall apart, it is highly doubtful Gorby would be able to remain in power.

HOW, HOW, HOW? In the last Letter I discussed the confirmation principle as outlined under classic Dow Theory. The principle states that the two Averages, Industrials and Transports, must always confirm each other through preceding points if reliable inferences are to be drawn. In those instances where one Average refuses to confirm the other, the odds are high that the move is deceptive and that a reversal is in order.

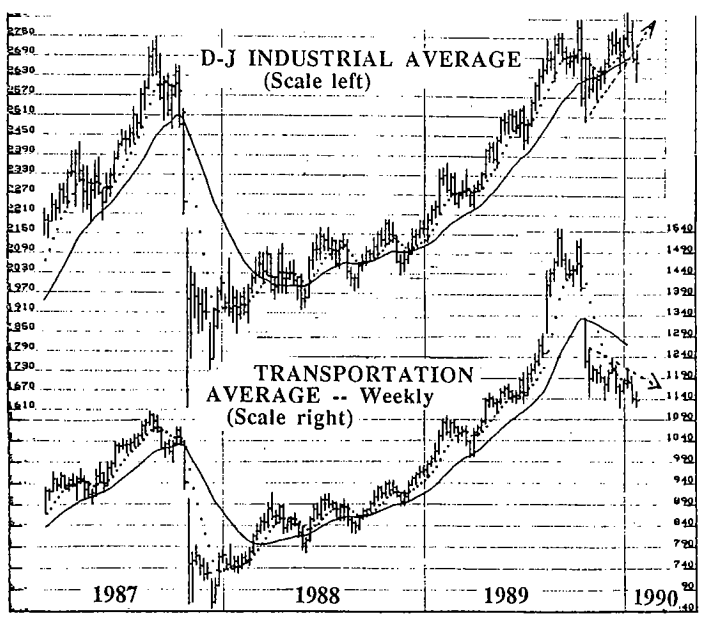
Most non-confirmations show up well on the daily charts. Flagrant non-confirmations will show on a weekly chart. The current non-confirmation between Industrials and Transports is flagrant indeed, and it can be seen very clearly on this weekly chart of the Averages (chart courtesy of *Mansfield*).

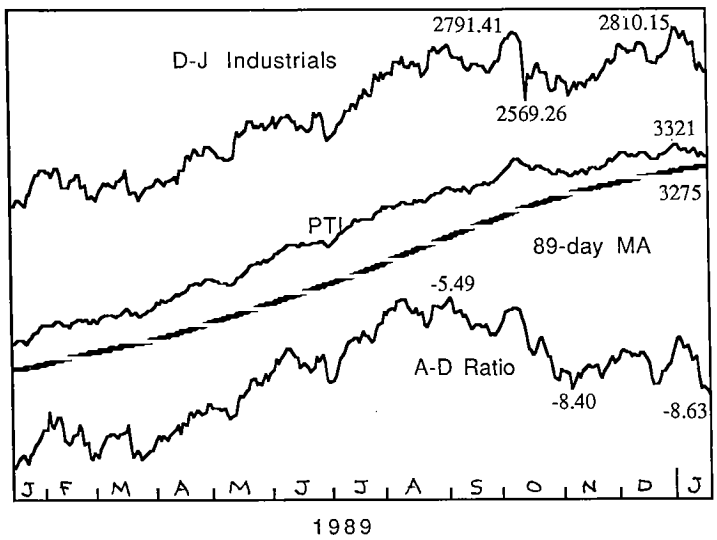
Why confirm? The rationale behind the confirmation principle is simple enough. The D-J Industrial Average reflects the manufacturing capabilities of the nation. The Transportation Average reflects the sales and shipping capabilities of the nation. In healthy economies, manufacturing and sales will rise together. But if sales are rising and manufacturing is lagging, the economy is out of whack. By the same token, if manufacturers are producing the goods, but the goods are not being sold and shipped, then again there's something rotten in the economy.

For whatever reason (and the true reasons may not have surfaced yet), the Transportation Average has acted miserably ever since its 1532.01 high of September 5. As this is written, the Transports are a whopping 380 points below their September 5 high. This tells me that something is very wrong with this market, and that the Averages have been reflecting trouble ahead in the economy.

On the financial front it is worth noting that the NYSE Financial Index, at 150, is at its lowest level since last May. This comprehensive Index includes all banks, S&Ls, small loan companies, brokers, etc.

Further signs of weakness are seen in the number of new highs on the NYSE. On the week of August 11 there were 492 new highs. That was the week in which the Dow reached a record high of 2712.63. On the week ending October 6, with the Dow at another record high of 2791.41, new highs on the NYSE were 334. On the week ending January 5, with the Dow hitting still another record high of 2810.14, new highs dropped to 196. In fact on January 2, the day of the record Dow high there were only 111 new highs. Thus, it is clear that fewer and fewer stocks are joining the upward





parade, regardless of successive peaks in the Dow -- hardly a good sign.

Comparisons: I'm always a bit skeptical of historic comparisons. I tend to be skeptical because comparisons tend to be simplistic and because no two markets are ever exactly alike. Nevertheless, there are some remarkable similarities between today's market and a few markets of the past, and the similarities are worth noting.

The two major tops of the post-World War II period occurred in 1966 and in 1973. The sequence of those tops was as follows.

In October 1965 the advance-decline ratio on the NYSE topped out. The NASDAQ and Value Line Averages (both broad averages which contain many second-tier stocks) topped out later in 1965. But the Dow and the S&P 500 rallied to peaks in January 1966 (on that final rally the Dow surged above 1,000 for the first time in history). This was followed by a crushing bear market that saw the Dow fall to a low of 744 by October 1966.

Next case: The advance-decline ratio topped out in March 1972. Later that same year the broad NASDAQ and Value Line Averages topped out. Despite this the Dow and the S&P 500 rallied to new highs in January 1973. The Dow, in fact, rose to a record high of 1051.70 on January 11. That final surge in the blue-chip issues was followed, during 1973 and 1974, by the worst bear market since the 1930s.

Aftermath: It took seven years following the 1966 bull market peak for the Dow to advance to a new high. It took nine years following the 1973 peak before the Dow went to a new high.

All right, let's review the current situation. The advance-decline ratio topped out back in August 1989. The NASDAQ, Value Line, and AMEX Averages (all containing many second-tier stocks) topped out in October 1989. But the Dow and the S&P 500 rallied to peaks in January with the Dow recording an all-time high of 2810.15 on January 2, 1990.

Eerily similar patterns? I guess you could say that. But, of course, similarities are no guarantee that the scenarios will be exactly the same. Nevertheless, I did think the comparisons of 1966 and 1973 with today were worth noting. And if nothing else, I do think there is a warning in these comparisons. (Note: I want to thank John McGinley, Jr., of *Technical Trends,* PO Box 792, Wilton CT 06897, for suggesting the aforementioned similarities. I added the A-D ratio to John's thesis, and I believe that the action of the A-D ratio in all three cases just makes the comparisons that much more significant.)

THE PRIMARY TREND INDEX (PTI): I've been getting calls and letters from all over the country asking, "Has the PTI fallen below its moving average?" The answer is "No, it has not." When I tell people that they seem disappointed or incredulous. A few even ask if the PTI is capable of reversing into a declining trend. My answer: "You bet the PTI is capable of declining! During 1973 and 1974, for instance, it seemed as if the PTI would NEVER stop going down. Yes, the PTI can go down, and it will -- if and when the bear really takes over."

MARKET'S PRIMARY TREND: One of the most difficult concepts to get across to subscribers is the concept of the primary trend of the market. This may be old hat to my veteran subscribers of 10 or 20 years, but the whole idea of the primary trend bears repeating now.

There are three trends in the market, all working within each other simultaneously. There is the great primary trend, lasting usually a few years up to 15 years or even longer. There is the secondary trend lasting usually a few months up to a year. And there is the minor or daily trend lasting a few days to a few weeks or so.

The minor trend of the market is open to manipulation. This shortest of trends may reflect a news event, a sudden scare, a sunny word from the President or any of a thousand other possibilities.

The secondary trend often reflects a short-lived expansion or recession in the economy or some very major news event. The secondary trend is also open to manipulation, usually on the part of the Fed in that the Fed can make money tight or loose (the Fed can even bring on a recession by restricting credit or the Fed can feed a boom by opening the money spigots wide).

The primary trend is the great tidal trend of the market. When the tide is coming in we term it a bull market. When it is going out we call it a bear market. One of the basic tenets of Dow Theory is that the primary trend of the market cannot be manipulated. That's a point that every investor must understand. The primary trend is more powerful than the power of the Federal Reserve, Congress, and the President combined. When the primary trend of the market turns down (as it did in early-1973) stocks will decline until the market discounts the worst that can be seen ahead. When the primary trend turns up (as it did in late-1974) the market will rise until the best that can be seen ahead is fully discounted in the price structure.

But the point I want to get across to subscribers is that once the direction of the primary trend is set, the market will fully express itself in the primary direction. The primary trend may be held back for a while, secondary reactions may interrupt the primary trend, but ultimately THE TREND WILL RUN TO CONCLUSION -- IT WILL EXPRESS ITSELF FULLY.

It can't be proven yet, but there is certainly a possibility that the primary trend of the stock market turned down on September 5, 1989. That was the day when BOTH Averages, the D-J Industrials and Transports, recorded their last JOINT highs. Following the September 5 peak in the Transportation Average, the Averages headed generally down -- with the market panicking on October 13. The Dow hit a low of 2569.26 that day, and then rallied.

The rally carried the Dow to a new all-time high of 2810.14 on January 2, 1990. The Transports, however, fell hundreds of points short of confirming, and in fact the Transports recently broke below their October 13 crash low. The question, the all-important question now is -- WILL THE INDUSTRIALS CONFIRM BY BREAKING BELOW 2569.14? That's the critical Dow Theory level, and you should fix it in your mind -- **2569.14.**

If the Dow breaks the 2569.14 level, then according to Dow's Theory, a primary bear market will be in progress. If that comes to pass, history will record the bear market as having started on September 5, 1989, the day when both the Industrial and Transportation Averages recorded their last highs TOGETHER.

Question: Russell, is this "joint high in the Averages" concept the reason why you stressed the importance of the recent collapse in the Transportation Average?

Answer: Yes, exactly. I have been saying that because of the severe October collapse in the Transports and because of their inability to rally following the collapse, I believed that the Transports had topped out. In other words, the Transports acted as if they were "through for the duration." If this was the case, I reasoned, then by definition the bull market had ended and a bear market (although masked by strength in the Dow) had indeed begun.

Question: C'mon Russell, if a bear market really has started, won't the government turn it around one way or the other, or at least soften the blow?

Answer: They'll certainly try, you can count on that. But let me add this -- I've never seen a time when the Federal Reserve had its hands as tied as they are today. First of all, inflation is heating up as seen by the December Producer Price Index which jumped to an 8.4% inflation rate. On the price and wage front, everything appears to be heading higher. In the face of this, Fed Chairman Greenspan has said that he wants to see the inflation rate reduced to zero. But how far can Greenspan go in reducing rates with inflation flaring up again? Furthermore (and I've said this before), I don't think the Fed can lower the discount rate without a definite "go ahead" from our major creditors, creditors such as West Germany and Japan. Finally, interest rates are rising in Japan, West Germany, and most of the European countries as their central banks move to battle inflation (the German long bond now yields almost 8%).

Consider this: German bonds are now more attractive than US Treasury bonds. Why? German bonds are backed by a nation with a powerful currency, a highly favorable trade balance, low inflation, and a strong economy. On the other hand, US Treasury bonds are issued by a nation in which business is sagging, a nation with a weak currency, a nation where inflation is rising, and a nation that is producing massive budget and trade deficits.

The Fed's hand are tied more tightly now than at any time that I know of. But even if the Fed could do anything it wanted to on the credit and interest rate front, IF, the primary trend of the market turned down on September 5 (and remember, this has not been proved yet), but if the primary trend did turn down, then all the power of the Fed, President Bush, the US Treasury, the Congress plus the parliaments of the world could not turn the economy and the markets around.

So make no mistake about it, these are dramatic times, these are important times, these are historic times. And the question of the direction of the primary trend of the stock market is the trillion dollar question. Hopefully, we'll get the answer to that question via Dow Theory (or my PTI) some time in the near future.

But as I've said so many times before, the market is a "monster." It loves to frustrate us and prey on our weaknesses. It loves to keep us waiting. It loves to part us from our bank accounts, and it knows a thousand ways of doing any or all of the above.

Our weapons? Our weapons are intelligence, knowledge, guts, and patience.

WHY WORRY?: Bear markets can be cleansing markets. One never knows what dirty pools of water lie behind closed doors until a bear market hits. When the bear has the market in his grip, the dirty water seeps out from under the closet door for all to see. Yes, that process can be cleansing. And it can be painful.

You think the S&L and bank picture looks bleak now? What would they look like if a primary bear market was to take hold? You think the federal deficit and budget picture looks bad now? You think the LBOs, the takeovers, the department stores, and brokerage houses look dicey now? Imagine what all this will look like if the stock market heads into a major bear market of undetermined duration and extent.

Bear markets have one saving grace. They bring all the lying, the cheating, the over-leveraging, the shaky financing, the government subterfuge and manipulations, the Congressional baloney -- out into the open. Bear markets, if nothing else, expose us to the truth. And as a great religious leader of two thousand years ago said, "The truth shall make you free."

INVESTMENT POSITION: The question mark remains in the box. To be labeled definitely bearish, I require either the Dow to break its 1989 crash low of 2569.24 or my PTI to fall decisively below its 89-day moving average. To date, neither of these has occurred.

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Does that mean that I've learned to love this market? No, it does not. There are still too many discrepancies, too many divergences, too many sundry items that bother me about the market today.

Over the past two weeks the bond market has slipped badly, and the Summation Index for bonds (based on daily advances and declines on the NYSE bond market) has now turned negative.

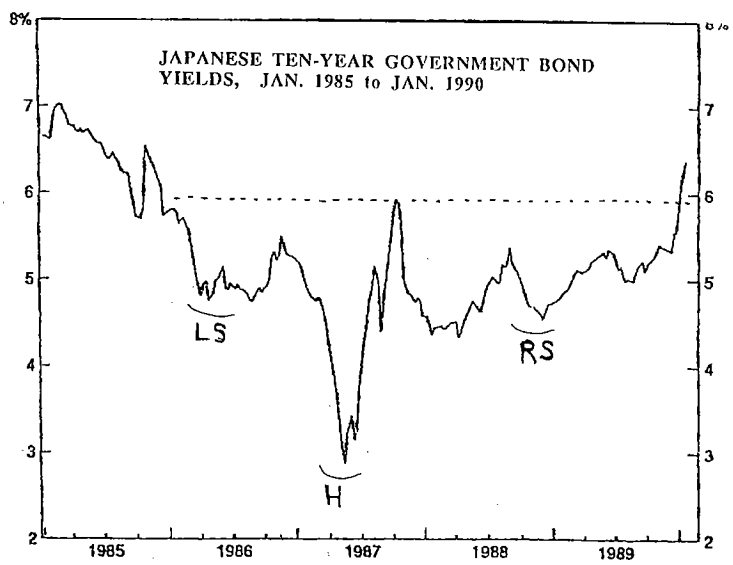
In his latest report my old friend, Marty Zweig, notes that "this is a tough market," mainly because the bad news is now widely known; consequently a great deal of liquidity has been built up on the sidelines. I agree on all counts.

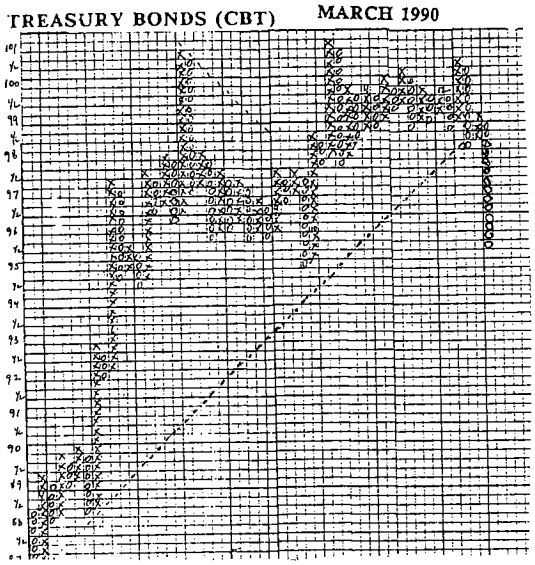
Tough markets require a lot of patience, and I'm a patient guy. So I'm inclined to sit tight and await developments. With January starting this shaky, I don't have the feeling that stocks are ready to run away on the upside. Note: In true primary bear markets it is not uncommon for the Averages to record their highs very early in the year.

CHARTS: This chart (courtesy of *Salomon Bros.*) may be the the most important chart around. The Japanese have enjoyed a picnic as far as interest rates are concerned -- UP TO NOW. But over the last few weeks the picnic has ended, as you can see on this chart. Of further interest is that the Japanese long-bond yield has assumed the form of a giant head-and-shoulder bottom, with the upside breakout having just occurred.

The chart suggests that Japanese long rates could go considerably higher. Let's hope not. Because if they do, it is very possible that Japanese investors and even the central bank itself will stop buying US Treasury bonds. Competition, you know.

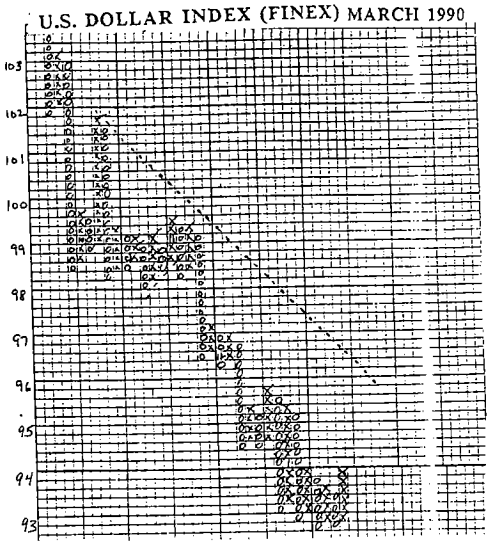
Meanwhile, US Treasury bonds have not fared well (despite almost universal predictions of "lower interest rates"). Here's a point & figure chart of the *March T-bond* contract. The contract has now turned decisively bearish, and as you can see the long-term rising support line has now been violated. The bonds could now test the 95 area.





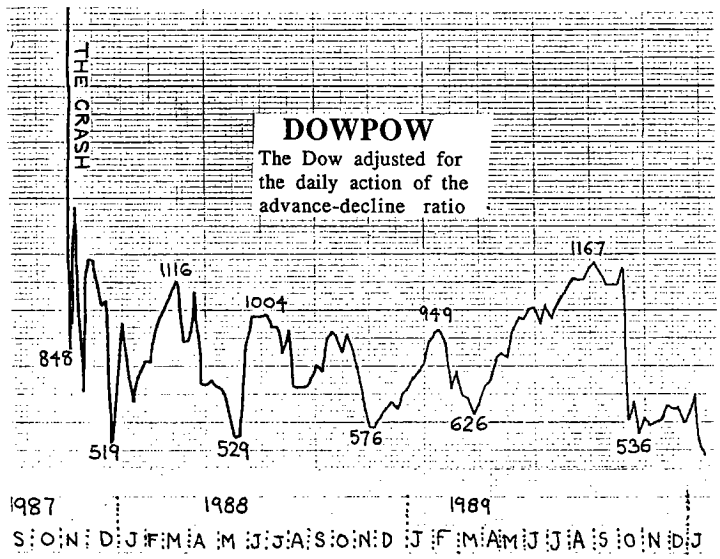
I've been fascinated by the bond picture. The main reason I've found it fascinating is that I've never seen such unanimity on Wall Street and every other street regarding the trend of interest rates. In every newspaper, magazine, advisory letter, and on TV we were told that business was going to "slow down, no recession but a slowdown," and therefore the Fed would bring rates down and bonds would rise. It was in the bag -- a foregone conclusion. But it hasn't quite worked out that way.

This point & figure chart of the March T-bond contract tells the story. From the peak last October, the bond has now dropped around five points or most of a year's coupon interest. The bond has broken long-term bullish support (dotted line), and 95 looms as a critical level.



The second chart shows the March US dollar contract -- which has been on a long and severe journey downhill. However, with the yield on many of our long-term T-bonds now pushing into the 8.4% range, the dollar has strengthened and we might be in for a rally in the Dollar Index. If the March Dollar Index pushes above 94.10 (and it is very close) a Dollar rally should be underway (P&F charts courtesy of *Chartcraft*, New Rochelle, NY).

Finally, here's a chart of DowPow, my proprietary index of the Dow adjusted daily for the action of the advance-decline ratio. Last week DowPow dropped to a new low -- actually below the 1987 crash low! What does this mean? Frankly, DowPow's weakness surprises me. It's never before acted this way during a period where the Dow rose to a new record high (I have its record going back 20 years). What a new high on the Dow (January 2) and last week's new low on DowPow indicates we'll know in due time.



But for one thing, I think DowPow's performance is telling us that market breadth since the October 1987 crash low has been very poor. I also know that it's hard to make money in a market where DowPow is breaking to successive new lows.

ANNOUNCEMENT: For those who already own my chart books, I'm announcing that the 1989 pages will be ready by the end of January. Please send a check for **$3** for each page, made payable to Richard Russell. (One page covers the 1989 D-J Averages and one page covers the 1989 advance-decline ratio.)

For new subscribers, I should explain. I offer two loose leaf albums (three-ring binders, large11" x 17" pages). The first album covers the four daily D-J Averages (Industrials, Transports, Utilities, 20-Bonds) plus daily volume from 1885 to 1989, one page for each year. Outstanding news events are also listed throughout so that students can see how these events actually affected the stock market. This 104-page album costs **$135,** we pay the postage in the United States and Canada (foreign delivery is extra - please contact our offices for additional information).

The second album covers the Dow and the advance-decline radio daily from 1931 through 1989. Using this album, students can study the relationship of price (Dow) and breadth (A-D ratio) over a period of 56 years. Price for the A-D album is **$95,** which includes domestic postage.

These two albums are unique and the material contained in them is available nowhere else. They constitute a priceless history of the stock market (NYSE) from its very inception to the present. Each year we offer new pages for the preceding year so that the albums can always be kept up-to-date. Frankly, I don't think there's a week that goes by that I don't refer to these albums, either to check some similar period of the past or simply to enhance my ability to read and make sense out of what the market is saying. I recommend these albums to all institutions, brokers, and serious investors and traders. (I might add that in due time both of these publications will surely become collectors items.)

NOTES & QUOTES: Shocker: As much as Gorbachev is loved outside Russia, he is now thoroughly disliked within Russia. Here's Vladimir Solovyov's (writing in the *Christian Science Monitor*) description of what's happening: "In the USSR Gorbachev is cursed on every street corner. Demonstrators tear his portraits to pieces and wipe their feet on them. Reformists and minorities accuse him of indecision and inactivity. Party diehards say he's betrayed socialist ideals. The people blame him for not keeping his promises, and for an unstable life." Russell comment: Don't be shocked if Gorby exits the scene. Rumors to that effect come out in the international markets almost weekly. Where there's smoke there's often fire.

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A few Letters back I mentioned that after January 1 it would be legal for you to hold foreign currencies in your US bank account. I

have received a flood of letters from subscribers who state that they asked their banks about this and to a man the banks replied that they know nothing about it. So if any subscriber knows the story on this, I'd appreciate hearing from them. By the way, I've been putting some of our money into German marks via a Shearson Lehman account. Shearson has a no-load foreign currency fund ("Currency Portfolios"), and I find this the easiest way to "invest" in a foreign currency. Current short-term interest rates are the mark at 5.3%, yen at 4.97%, pound at 10.6%, and Canadian dollar at 10.58%.

* *

It is now believed that the great crash of 1987 was set off by nervous Japanese investors. Frightened by the slumping dollar, the Japanese sold a huge amount of the 30-year T-bonds, driving the yield on the bonds above 10%. At the same time, investors dumped minuscule-yielding stocks and switched to bonds, thereby setting off the panic decline. Said Treasury Secretary Nicholas Brady (who headed the investigative commission), "That, to me, is what really started the 19th (crash), a worry by the Japanese about the US currency." Of course, the stock market was in a weak technical condition as well.

* *

Speaking of the Japanese, they are fast readying themselves for the European markets of 1992 and beyond. Japan, obviously well aware of Europe's fear of a Japanese manufacturing and products "invasion," is being very smart about it. The Export Import Bank of Japan announced last week that it was readying a $1 billion loan to Poland and Hungary. This is in addition to $200 million Japan has already given the two nations. Japanese Prime Minister Kaifu also announced he will personally visit Poland and Hungary this spring to explore investment opportunities. Mr. Kaifu's European trip will include Paris, London, Rome, Warsaw, and Budapest. He will also seek support for reopening relations with China. Japan's big export market is the US, but as you can see they are not depending on the US market alone.

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Behind Robert Campeau and his sinking empire are the Reichmanns of Toronto. They have invested $700 million in the Campeau complex, and, as things stand, they could lose as much as $350 million. Why the shrewd Reichmanns got into the retail world I can't imagine. They are basically real estate operators (Olympic & York), the largest real estate owners in NYC with a reputed net worth of $8.4 billion. If the Reichmanns "take a bath" on Campeau, it will be a rare first loss for them.

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Is the great art price-explosion over? Who knows, but Sotheby's stock is now down to 23 from a high of 37. And the Van Gogh "Irises" painting that topped the art mart price ladder at $53.9 million is back in Sotheby's hands, a no-sale on a cop-out from tottering Australian financier Alan Bond. Sotheby's had lent Bond $27 million to buy the painting. Now dealers are wondering what the painting would have gone for if Bond had not bid it up to unsustainable highs. Best guess -- only $40 million. At any rate, Sotheby's announces that it will sell no more art "on margin," and they are looking for a new buyer for "Irises."

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Things change. Mike Royko, nationally syndicated columnist of the *Chicago Tribune*, hasn't been a friend of gun owners. But he's changed his mind somewhat due to an outrageous incident in which a woman was raped twice in separate incidents only hours apart. Royko still is in favor of gun registration, waiting periods, and outlawing "mini-machine guns," but the rape incident was apparently too much for Royko. He offered this advice for women: "Get a gun and carry it in your purse anyway. To hell with the concealed weapon law." Russell comment: I've lived in high crime areas all my life. And I've always felt that the best deterrent to muggings (I've been mugged twice, once on each coast) is a lot of decoys (i.e., the plain-clothesman who acts as a decoy to muggers). In other words, let the mugger know that any time he makes a hit he may well be hitting a decoy, and he is therefore in mortal danger himself. Come to think of it, the armed citizen is a kind of decoy, isn't he (or she)? Oh yeah, I'll definitely be against citizens owning guns on the day when you can show me that the criminals and crazies have all been disarmed first.

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If you want to really know what's happening with the federal debt, you have to watch the actual figures (as opposed to the lies coming out of Washington). Here's the record since last April 12, the true figures. On April 12, 1989, the total federal debt was $2.755 trillion. On January 4, 1990, roughly nine months later, the total debt had risen to $2.941 trillion, a rise of $186 billion. That amounts to $20.6 billion a month. Annualize that and you're talking about $247.2 billion a year in new debt or $4.7 billion a week! It may not be correct to exactly annualize the $20.6 billion, but I'll bet that the total increase in the debt comes close to $250 billion for the last twelve months.

U.S. Finances

for Wednesday, April 12, 1989 ←

WASHINGTON (AP) — Here are figures on government spending and debt (last six digits are eliminated). The government's fiscal year runs Oct. 1 through Sept. 30.

Total public debt April 11	2,755,012
Statutory debt limit	2,800,000
Operating balance April 11	9,417
Interest fiscal 1989 thru Feb.	100,493

U.S. Finances

for Monday, Jan. 8, 1990 ←

WASHINGTON (AP) — Here are figures on government spending and debt (last six digits are eliminated). The government's fiscal year runs Oct. 1 through Sept. 30.

Total public debt Jan. 5	2,941,020
Statutory debt limit	3,122,700
Operating balance Jan. 5	14,303
Interest fiscal 1990 thru Nov	36,662

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Wall Street continues to be in a depression with most of the Street and the brokerage houses scrounging for profits. Shearson Lehman Hutton, smarting under a mountain of debt (they borrowed $1 billion in the ill-advised Hutton takeover), is having major troubles, and American Express would probably like to get out of Shearson completely. The same goes for Prudential, which owns Prudential-Bache. Pru-Bache has had a dismal record, showing a paltry total of $3 million in profits since 1982. Last week Merrill Lynch announced that it will be laying off 3,000 employees (this after having laid off 5,500 employees earlier). In NYC, upwards of 20,000 financial workers have been laid off since the beginning of the Wall Street depression. I've stated this old adage, but it bears repeating -- "When trouble comes, it tends to hit Wall Street first. But in time, the rest of the nation will follow."

* *

When things go bad in South America, they really go bad. The Buenos Aires market closed for the first week in January, due to the government's edict that the production of australs (the national money) would be sharply curtailed. On January 8, the exchange opened again, and stocks crashed, losing 53% of their value in a single day!

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Dr. Iben Browning is one of the most respected climatologists in the nation. His predictions are based to a large extent on timing of peak tidal forces. Browning's record on climate has been outstanding. He states the the world is now entering a 90-year cycle of cold weather (directly opposite to what most climatologists believe). Browning says the weather in the northern hemisphere will get irregularly colder until around 2010 -- then stay cold until 2070 . This change will will boost heating costs, hurt crops and raise transportation costs as rivers, roads, and airports freeze or become snow-covered. Browning states that all serious depressions in US history have coincided with high tidal force period. The high tidal period started in 1989 and will last until 1993. If the future resembles the past, says Browning, look for hard times during that period. The good news: Browning expects no earthquakes in Southern California before 2025. (The above from Johnny Johnson's excellent *Daily News Digest*, PO Box 84900, Phoenix, AZ 85071.)

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Onward and upward: One of Reagan's election platforms was that he would shrink the size of government. It never happened. In five of Reagan's eight years, the bureaucracy grew. At the end of the Reagan presidency, there were 214,000 more government workers than when he started. During the same period the military took on

98,000 additional workers, so, with a total boost of 312,000 you're talking a real expansion. Your turn, Mr. Bush.

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And talking about expansion, study this chart of combined bank and S&L failures for the years 1980 to 1989. The reason for this growth rate -- debt, stupidity, and corruption, the deadly trio. They're an unbeatable combination.

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They laughed, they called it McPaper. But *USA Today* may have the last laugh. It is now the "biggest" paper in the nation with a circulation of 1.6 million on Monday through Thursday and 2.1 million on Friday. Personally, I like the paper and haven't missed an issue since it came out. The writing is clear and concise, the sports coverage is tops, and the Life section is habit-forming.

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Talking of papers, the new *National* will be coming out this month. It will be the first daily all-sports newspaper (owned, by the way, by a billionaire Mexican). Will Americans support an all-sports daily at 50 cents a shot? I honestly don't know.

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The IRS is currently working under a hiring freeze. The service says it's undermanned and working with antiquated computer systems. Furthermore, the IRS claims that the "tax gap" is pushing $100 billion (the gap is the additional taxes the IRS would be collecting if they had the right equipment and manpower). And oh yes, the service states that for the first time in history only 1% of all income tax returns will be audited.

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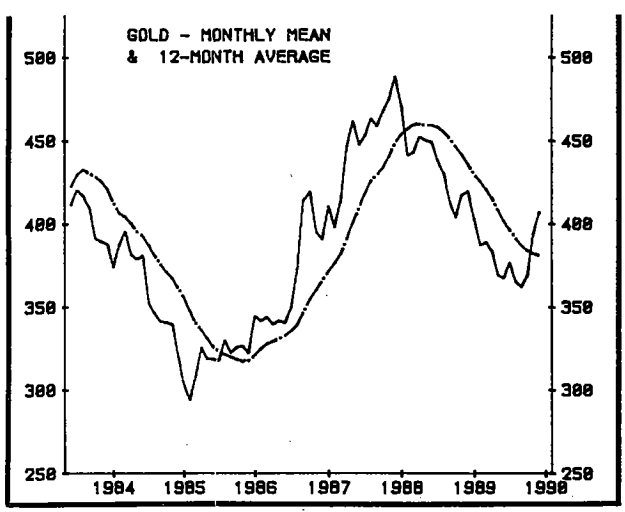
Bet on sports? This interesting piece from Norm Zadah's *Top Trader Insight* (PO Box 7634, Beverly Hills, CA 90212) -- "In sports betting the market is essentially the line. You are looking for situations where your team is worth more than the public thinks. The problem with the (stock) market is that the public must change its mind in order for the stock to move. You can have a brilliant analysis, and still find the market making an insane move against you, and you don't know when it's going to stop. In sports it doesn't matter what the public thinks. The superiority of your analysis will become evident within a few hours. And you can sleep soundly."

* *

Want an NFL expansion franchise? The NFL is talking about expanding to 32 teams or four more than the current 28. Indicated price for an expansion franchise -- $80 to $100 million (in 1976 the Tampa Bucs expansion franchise went for $16 million). Walter Payton is currently heading a group in St. Louis that wants a team. The city, with help from the state of Missouri, is offering to put up a 70,000-seat domed stadium.

GOLD: L-K-I-S. "Let's keep it simple." Here's a chart that I just received from Bill Bretz (*Juncture Recognition*, Box 1209, Pompano Beach, FL 33061). What we see here is the monthly mean average of gold and a 12-month moving average (MA). As you can see, gold has surged above the MA (dotted line) for the first time since its long slide from the 1988 high.



Normal action, following such a breakout, is for the metal to fall back again and "test" the MA. Note that in 1985 when gold pushed above its MA, it backed off and tested the MA twice before starting its major rise toward the 500 level. The 12-month MA for gold is around 380 at this time, so it wouldn't be shocking if gold even tested that level.

However, I feel that gold is acting quite well now, and the 400 level could easily hold on forthcoming tests. In the meantime, the MA should flatten out, and then turn up. When that happens, gold will probably start to make its real move to the upside.

So what do we do as far as gold is concerned? Answer: exercise patience, that's all that's needed.

LATE NOTES AND MORE: The fat lady may not be singing quite yet, but watch it -- the piper is asking to be paid!

Question: What do you call a country that borrows $100 to $120 billion a year to keep up its profligate lifestyle? Answer: Immoral. Question: What do you call a government that masks its huge deficits by stealing from its Social Security trust? Answer: A liar.

On January 18 the White House asked the Fed to ease up and bring down interest rates. Would somebody please tell the White House what's going on. When you're living on "the kindness of strangers" (in this case the strangers are our creditors), you've got to keep those strangers happy. What keeps foreign holders of US bonds (they own 14% of all US T-bonds) happy is high interest rates. And the market is saying that US rates, compared with rising Japanese and German rates, have not been high enough. Thus, the slump in the US bond market and the rise in US interest rates.

Now a fantastic new development is on the horizon. Senator Moynihan (D-NY) has introduced an idea that is fast becoming political and economic dynamite. Moynihan says that Mr. Bush, with his talk of lowering the capital gains tax, is catering to the rich. But Moynihan says it is the massive middle class that really needs help, and the help should come in the form of a lowering of the Social Security tax. With elections coming up, lowering the SS tax for 112 million workers could be a great gift to the Democrats. After all, the Dems could claim that by lowering SS taxes they were thinking of millions of middle-class Americans while Bush, in opposing such a cut, was merely interested in giving something to the rich.

Ah, but there's a bombshell here. Moynihan says he wants SS to go back to "pay-as-you-go," and this means not only reducing the SS tax, but also taking SS OFF BUDGET. If that happens, the real, massive US federal budget deficit will be exposed for all to see -- instead of being masked (as it now is) by having the SS surplus income on budget.

The public has not picked up on this idea yet, and most Democrats have not yet comprehended the power of the Moynihan bill. But I think the Dems will see it, and they will use it as a device to embarrass the Administration. Moynihan says, "This bill will be voted on. I promise you that." Russell opinion: Make no mistake about it, this is a good bill, and an explosive concept. And it's a concept that has the potential to blow the whole Washington subterfuge about the deficit sky high. The Moynihan bill is an idea whose time has come.

LATE, LATE NOTES: This is a difficult and inconclusive area -- consequently I am getting calls from all over the world regarding the status of the PTI. As you can see on the page 2 chart, the PTI has now come down to 3296, 21 points above its moving average. This is the closest the PTI has come to its MA since August 1988, but the PTI has a way of correcting right to its MA, then bouncing up and away again. So we wait -- but as this is written, the PTI has NOT issued a major sell signal.

NEXT MAILING: Feb. 7